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TRADE AND DEVELOPMENT BOARD
Committee on Commodities
Fourteenth session
Geneva, 12 November 1990
Item 4 of the provisional agenda

AGREED CONCLUSIONS ADOPTED BY THE WORKING PARTY ON DIVERSIFICATION, PROCESSING, MARKETING, AND DISTRIBUTION, INCLUDING TRANSPORTATION, AT ITS THIRD SESSION */

(Palais des Nations, Geneva, 5 - 9 November 1990)

1. The Working Party expressed its appreciation to the UNCTAD secretariat for the well balanced technical documentation which it had prepared for the Working Party's two sessions and which provided a useful basis for the discussions, in particular in informal meetings. It recalled the policies and measures on diversification, processing, marketing and distribution as agreed in paragraphs 81 to 85 of the Final Act of UNCTAD VII.

2. The Working Party noted that, while one third of the 86 developing countries examined by the UNCTAD secretariat had achieved some degree of diversification in terms of their dependence on commodities in export earnings during the period 1967 to 1986, two thirds still remained heavily commodity-dependent and half of these had even experienced an increased reliance on one or two major commodities in their export earnings. Diversification within and outside of commodities has occurred principally in those countries possessing a more diversified economic base, including those with a more diversified commodity base.

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*/ Incorporating also, as appropriate, the agreed conclusions adopted by the Working Party at its second session, held in September 1989.

GE.90-52885

3. The Working Party recalled that the Conference had noted that decisions on diversification are primarily the responsibility of developing countries. It recognized nevertheless that diversification is a subject of interest and concern to all countries. It had been stimulated by real income growth and growth in world trade, as well as by facilitating actions and policies on the part of Governments to create a climate conducive to diversification efforts by enterprises. However, a variety of constraints, both internal and external, including indebtedness, had adversely affected such efforts.

4. Bearing in mind the mandate given to the Working Party by the Committee on Commodities in its agreed conclusion 25 (XIII), the Working Party considered the following interrelated factors and conditions which require further efforts, as well as certain issues which require further research, taking into account commodity- and country-specific differences.

A. Market access conditions and other factors and conditions pertinent to the development of viable diversification programmes

5. It was recognized that most developing countries continue to rely on exports to absorb a significant proportion of their commodity sector production, whether in raw, semi-processed or processed form, as a result of which there is a linkage between diversification efforts and market access conditions and between such efforts and market opportunities. In consequence it was stressed that tariff and non-tariff barriers to trade, including escalation of barriers according to the stage of processing, are an important constraint on vertical and horizontal diversification and should be eliminated or reduced in line with international commitments made.

6. The Working Party recognized that the extent of infrastructural development (i.e. transport system, port facilities, storage, electricity, irrigation and communications systems), as well as the availability of technology, of external financial and domestic resources and of appropriately skilled labour, have a direct impact on diversification, processing, marketing and distribution, including transportation. Increased domestic and external efforts are needed in the above-mentioned areas, including for the least developed countries and in the context of the United Nations Programme of Action for African Economic Recovery and Development 1986-1990 (UN-PAAERD).

7. The Working Party noted that high degrees of concentration of market power and vertical integration in enterprises could impede diversification and recognized that the entry of new enterprises into markets could improve imperfect market structures.

8. The Working Party agreed that further research and analysis were required on the impact on diversification of various market access conditions, government policies, structural adjustment programmes, and the forms and methods of trading for primary and processed commodities and it requested the UNCTAD secretariat to submit to the Committee on Commodities its suggestions for specific studies in these areas.

B. The identification of sectors offering opportunities for diversification and increased participation of developing countries in processing, marketing and distribution, including transportation, and of the factors that could facilitate diversification of the economies of developing countries heavily dependent on commodity export earnings, as well as possible means for dealing with such factors, based on past and present experiences

9. The Working Party recognized that the identification of precise diversification opportunities was a country-specific task and, while decisions on diversification were primarily the responsibility of an individual country, an improvement in the external environment was also required. A country, in elaborating its programmes for diversification, would need to take into account competing needs and possibilities, the international market situation and requirements for sustainable growth. The Working Party agreed that increased international co-operation could open up new opportunities for diversification and lead to harmony in such programmes. It also agreed that further research on experience with diversification across countries needed to be undertaken which could assist in the formulation of policy options for Governments and international organizations, bearing in mind the relevance of experience to the prevailing situation, and it requested the UNCTAD secretariat to submit to the Committee on Commodities its suggestions for specific studies in these areas.

READEX

C. Technical assistance for the implementation of these programmes, as well as for feasibility studies and infrastructural developments, and technical co-operation projects and programmes, particularly for human resources development

10. The Working Party recognized that lack of appropriately skilled labour affected the capacity of developing countries to take advantage of existing or potential opportunities for diversification, processing, marketing and distribution and agreed that technical assistance can play an important role in overcoming this constraint.

11. The Working Party welcomed the approach of the UNCTAD secretariat in performing its co-ordinating role with respect to the identification of needs and gaps in technical assistance relevant to diversification, processing, marketing and distribution, including transportation. It agreed that UNCTAD should continue this approach and collect, synthesize and disseminate information on specific technical assistance needs and availabilities, and in this regard requested Governments and international organizations to provide more information. The Working Party took note of the two UNDP preparatory assistance projects being executed by UNCTAD, namely "A programme to promote commodity processing in developing countries" and "Policies for improving the commercialization of commodities by developing countries", and of the willingness of other international organizations to co-operate in the elaboration of the full projects.

D. The improvement of information flows to aid investment decisions

12. The availability of adequate information is a basic condition for diversification and the improvement of information flows is one of the key areas for international co-operation.

13. It was recognized that for the elaboration of diversification programmes countries needed to collect information to permit an assessment of their natural resource bases. This assessment and the identification of investment opportunities are clearly linked to the availability and usability of various types of information.

14. Although information and data on commodities are abundant and extensive, the Working Party recognized that existing information is often incomplete for market transparency purposes. It noted that assessments of the natural resource bases in developing countries are also often incomplete and not sufficiently up-to-date, and that new technologies were being developed to improve the accuracy of such assessments. Scarce information concerns mainly aspects such as marketing mechanisms, especially for non-traditional commodities and processed goods, market and industry structures as well as development and investment plans of other interested parties. It also noted the lack of tools, equipment and training of human resources in developing countries to permit an optimal use of available information. It recognized that direct contacts both at the intergovernmental and industry sector level and among producers and consumers were important means of facilitating the exchange of information.

15. The Working Party agreed that there was a need for increased international co-operation to improve information flows through the following means:

(a) It called upon Governments and industry in both developing and developed countries to increase their active participation in, and to make better use of, producer-consumer forums as a means of exchanging information on investments, prospects and markets for individual commodities as well as for exchanging views. It recalled that the Conference had agreed that producer/consumer co-operation, where appropriate and feasible, should be enhanced, strengthened or established;

(b) It encouraged international agencies and interested donor countries to support Governments of developing countries in up-dating, completing and improving the contents of the assessments of their natural resource bases;

(c) It took note of the initiatives undertaken by the International Trade Centre UNCTAD/GATT, UNIDO, FAO, UNCTAD and government agencies in relation to collection and dissemination of commodity-related information. It invited bilateral donors and UNDP and other competent United Nations organizations to consider providing financial support for improvements in information flows, for the co-ordination of information systems and for assistance to developing countries through training and development of analytical tools for better use of existing information;

(d) It requested the UNCTAD secretariat, within its existing resources and in light of the co-ordinating role of the Committee on Commodities:

(i) to provide technical assistance to developing countries to assist them in collecting, processing, disseminating and making full use of information to help them take decisions on investment in viable diversification activities;

(ii) to analyse and disseminate, in collaboration with other competent organizations, publicly available information on industry and market structures for individual commodities of major export interest to commodity-exporting countries, especially low-income commodity-dependent developing countries;

(iii) to draw up an inventory of the criteria for the evaluation of diversification projects in the light of paragraphs 19 to 25 of TD/B/C.1/AC/11, with a view to facilitating the work of the decision-making bodies in producing countries;

(iv) to continue to develop a micro-computer-based commodity information and analysis system (MICAS) to assist in storing and analysing world-wide information on commodities.

E. Adequate financial resources for diversification

16. The Working Party noted the importance of diversification programmes. In this regard it recognized that national diversification efforts of developing countries can only yield results over a period of time and require significant investment resources, including medium and long-term finance provided from multilateral and private sources. It was recognized that a chronic shortage of domestic financial resources coupled with a decline of foreign private capital flows and the latter's concentration on a few countries and sectors, as well as the relatively small proportion of official development finance directed to commodity-related export diversification activities, placed many - especially commodity-dependent low-income - developing countries in a disadvantageous situation in their efforts to diversify commodity production and exports.

17. The Working Party noted that the Conference had called for an adequate expansion of official bilateral and multilateral resources, as well as private resources, including private investment, to finance appropriate diversification projects and programmes, possibly through special facilities for this purpose. It encouraged utilization of existing facilities, for example the International Finance Corporation and/or relevant bilateral schemes.

18. The Working Party agreed on the following:

(a) Resources should include financial assistance from existing resources for pre-investment assistance to elaborate diversification programmes and to identify projects attractive for foreign investors, as well as adequate resources for investment in the identified diversification activities, particularly in countries which remain highly dependent on exports of a few primary commodities. The elaboration of economically viable diversification projects is likely to attract greater funding for this purpose from international financial institutions and foreign investors;

(b) Existing multilateral financial institutions should be encouraged to give appropriate emphasis to diversification in their overall financial programmes and to co-ordinate their efforts;

(c) Further voluntary contributions to the Second Account of the Common Fund for Commodities could assist in diversification efforts;

(d) Every effort should be made to create and increase domestic resources in developing countries, within their capabilities, and to channel them into diversification activities;

(e) Both developed and developing countries should continue appropriate policies, measures and incentives to encourage private investment flows for diversification activities in developing countries and to create a more favourable external environment;

(f) Financial resources for diversification and their modalities should, to the extent possible, continue to be reviewed by the UNCTAD secretariat. The Working Party invited Governments and international organizations to continue to provide available information.

F. Future work

19. The Working Party recognized that, while its mandate is exhausted, work on diversification should be continued and that it constitutes a very important element of the work programme of the Committee on Commodities. The Working Party agreed above on further research and analysis and other actions that should be undertaken by the UNCTAD secretariat and by other international organizations. These would need to be considered by the Committee in deciding upon the manner in which further work on diversification should be carried out in order to fulfil the decisions taken by the Conference in paragraphs 81 to 85 of the Final Act of UNCTAD VII.

4th (closing) meeting
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Committee on Commodities
Fourteenth session
Geneva, 12 November 1990
Agenda item 8

DRAFT REPORT OF THE COMMITTEE ON COMMODITIES ON ITS FOURTEENTH SESSION

held at the Palais des Nations, Geneva,
from 12 to .. November 1990

Rapporteur: Mr. Vladimir PANKOV (Union of Soviet Socialist Republics)

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INTRODUCTION

1. The fourteenth session of the Committee on Commodities was held at the Palais des Nations, Geneva, from 12 to 20 November 1990. In the course of its session, the Committee held .. plenary meetings. The present report contains a summary account of its deliberations.

2. In an opening statement, the incoming Chairman observed that, convening as it did during the preparatory process for UNCTAD VIII, the current session of the Committee was an important landmark in the progress of international concern over commodities. The Committee was also convening on the eve of the conclusion of the Uruguay Round, which was related to the Committee's work. It was to be hoped that the deliberations would lead to a positive outcome in the dilemma over commodities confronting developing countries. In this context, it was encouraging that the Common Fund in Amsterdam was taking steps for its Second Account to become operational.

3. In an introductory statement, the Secretary-General of UNCTAD, recalling that the Trade and Development Board had recently agreed to include commodities as one of the interrelated areas to be addressed by the Conference at its eighth session, said that the fourteenth session of the Committee should be viewed as the first step in the substantive discussions on commodities in the preparatory process for UNCTAD VIII. The Committee was meeting against a background of great uncertainty in the commodity sector, exacerbated in recent times by the Persian Gulf crisis; by continuing slow rates of economic growth, particularly in the industrialized countries constituting the major markets for commodities; by the difficulty of predicting the short- and medium-term implications of the political and economic changes taking place in countries of Eastern Europe; and by the impact of debt constraints on both commodity imports and exports.

4. Many of the concerns that had been voiced in the past remained at the forefront of the commodity problem: prices for many commodities remained low and, in some cases, at their historically lowest levels; and most developing countries continued to experience large shortfalls in their commodity export earnings while only very limited success had been achieved in efforts to diversify their economies. There also remained a tendency towards structural over-supply for many commodities, both tropical and temperate-zone, stemming from policies which were geared to specific national circumstances, including

debt-servicing pressures, and which by and large tended to ignore the international market situation. None of those issues could be fully resolved in the context of the Uruguay Round. It was clear that there was a need for greater cohesion between national commodity policies and overall development strategies. Diversification was a key factor in development and could not be made dependent upon an improvement in commodity prices. Experience had shown that it could be highly questionable for many developing countries to rely upon commodities as the sole basis for their development.

5. He pointed to a number of new dimensions to the commodity issue that were increasingly occupying the minds of the international community, including the impact on commodities of environmental issues, of health considerations, and of measures to control the production and sale of illicit drugs; the effects of technological changes on the production and processing of commodities; and the creation of an enabling environment to promote and facilitate the diversification process, especially in the least developed countries. Proper treatment of those new dimensions would necessitate a detailed analysis of the situation prevailing in respect of all commodities, including fuel.

6. The Committee needed to assess the extent of progress achieved through existing instruments for producer/consumer co-operation and indicate what further action might be envisaged. In this regard he pointed to a number of positive developments that had taken place since the last session of the Committee, including the entry into force of the Agreement establishing the Common Fund for Commodities; the entry into force of the International Natural Rubber Agreement, 1987; the successful renegotiation of the International Agreement on Jute and Jute Products; the negotiation of terms of reference for international study groups on copper and tin; the inaugural meeting of the International Nickel Study Group; the decision by the Trade and Development Board to convene regular intergovernmental expert meetings on iron ore; and the decision taken within the framework of the intensive consultations on individual commodities to convene an ad hoc review meeting on bauxite in the first half of 1991.

7. There nevertheless remained much to be done in the area of producer/consumer co-operation. The process of intensive consultations pursuant to the Final Act of UNCTAD VII appeared to have run out of steam and there was a need for the Committee, in reviewing that process, to take into account the state of producer and producer/consumer co-operation on the

commodities in question, including developments in other international fora. Consideration might be given to widening the scope of the consultations to cover other products of importance to developing countries, such as fuel products and fisheries, and to measures that should be taken to revitalize the dialogue on commodities both individually and collectively. In the context of the review of its work programme, the Committee was also called upon to consider the specific action it wished to take pursuant to Board decision 384 (XXXVII) on sustainable development, as well as the implementation of Board decision 379 (S-XVI) on compensatory financing of export earnings shortfalls.

8. It was clear that the commodities problématique was an increasingly live issue and one that inescapably remained on the international agenda. It was also one in which UNCTAD had a specific role to play. The challenges before the Committee had to be taken up and not swept under the carpet. Solutions might be difficult but the problems could clearly not be ignored.

Chapter I

REVIEW OF THE COMMODITY SITUATION AND OUTLOOK

(Agenda item 3)

DIVERSIFICATION, PROCESSING, MARKETING AND DISTRIBUTION INCLUDING TRANSPORTATION

(Agenda item 4)

REVIEW OF THE WORK PROGRAMME OF THE COMMITTEE WITH PARTICULAR REFERENCE TO THE RESULTS OF INTERGOVERNMENTAL CONSULTATIONS HELD PURSUANT TO THE RELEVANT PARAGRAPHS OF THE FINAL ACT OF UNCTAD VII

(Agenda item 5)

9. The spokesman for the Group of 77 (Egypt) stated that 14 years had passed since the international community had adopted Conference resolution 93 (IV) on the Integrated Programme for Commodities and, in spite of all the efforts made to fulfil its objectives, the terms of trade for commodities continued to deteriorate, and the dependency of the developing countries on the commodity sector for their export earnings remained basically unchanged, although ironically the highly-commodity dependent developing countries had become even more dependent. In 1988, a year of economic expansion in the developed world, developing countries' aggregate export earnings from all commodities, in real terms and in relation to the values of manufactured exports of the developed countries, were the second lowest over the last 10 years. The commodity dilemma of the developing countries was illustrated by the fact that they had to depend on commodity exports to meet their needs and finance their development, while their export earnings for commodities showed a continued tendency to decrease.

10. The commodity situation was characterized by low prices; instability in prices and earnings; market access difficulties; debt-servicing induced problems affecting both exports and imports; technology considerations affecting supply; amd difficulties hampering diversification efforts. Both cyclical and structural factors had continued to depress world demand for most commodities. Major markets of developed countries were restricted by protectionist policies and measures. Pressing economic problems and debt led to a downward pressure on prices which was aggravated by the decrease in demand in industrialized countries; increased efficiency and technological

innovations in the commodity production had led to an increase in supply and hence to a decrease in prices; diversification efforts of developing countries were hampered by lack of adequate finance and by the problems of market access, including industry and market structures and the escalation of taxes and other trade barriers.

11. The current situation resulting from the annexation of Kuwait by Iraq, the completion of a single European Market in 1992, the developments in Eastern Europe and the uncertainty about the outcome of the Uruguay Round, complicated the commodity situation and made the prospects very uncertain. The Group of 77 emphasized the need for balanced results in the Uruguay Round which should bring about further expansion and liberalization in trade in commodities, taking into account the need for special and differential treatment for developing countries, as well as their development needs, in compliance with the Punta del Este Declaration. The situation in the least developed countries and in Africa was a cause for serious concern. The report of the United Nations Secretary-General's Expert Group on African Commodity Problems presented a worrying picture. Africa's commodity export earnings in 1988 were significantly lower than in 1980 and 1970 and debt service had become severely problematical. Moreover, the situation of many commodities produced in some of the least developed countries in Africa was being affected by certain environmental changes such as desertification and drought.

12. The Group of 77 emphasized that due attention should be given at the present session to the consideration of the subject of commodity export earnings shortfalls of developing countries and compensatory financing and asked that it should figure as a separate item on the agenda of the next session of the Committee.

13. In the view of the Group of 77, diversification was an essential element in any sound development strategy. It was not an automatic outcome of economic growth but rather a motor for development. While decisions on diversification were primarily the responsibility of developing countries, the successful attainment of that objective necessitated a more favourable external environment, especially the availability of external financing and better access to the markets of developed countries, including the improvement of imperfect market structures and increased access to technology. The Working Party on DPMD had successfully concluded its second and third sessions, and the Group of 77 considered the outcome as a step in the right direction that should be followed by many further steps.

14. The statement of the Secretary-General of UNCTAD and secretariat document TD/B/C.1/311 gave a full account of a number of important developments that had taken place within the framework of UNCTAD regarding producer/consumer co-operation since the thirteenth session of the Committee. The effort was tremendous, but the results were modest. Efforts by UNCTAD could not substitute for active participation and willingness on the part of producers and consumers, nor could those efforts alone correct structural market imbalances. Dialogue and co-operation between producers and consumers should be enhanced through more active participation in, and better use of, producer/consumer fora. Market pressures and limited finance had led to a situation where the International Natural Rubber Agreement was the only international commodity Agreement that still had operational price stabilization mechanisms. The establishment of the Common Fund for Commodities in June 1989 was a long awaited achievement. The Group of 77 called upon countries members of the Fund to contribute to making both accounts of the Fund fully operational as soon as possible, in full compliance with the provisions of the Agreement. His Group expressed its appreciation of the briefing given by the Managing Director of the Fund, and reaffirmed the need for making the financing of the Second Account more accessible for developing countries' commodities which were not likely to be covered by international commodity bodies. His Group also reaffirmed the need for expeditious action to make the First Account operational.

15. The current session of the Committee had the challenging task of preparing for work of UNCTAD VIII on commodities. UNCTAD VIII should be a landmark and a turning point in international economic relations. It was being convened in a new era of peace and co-operation, where cold war, confrontation and ideological differences were fading away and a new hope for a better future was emerging. The international community's resolve to establish peace and justice, and to guarantee freedom and respect of human rights, should be matched by a parallel resolve to eradicate poverty and to create a new economic order where resources were devoted to development and not to destruction, where no one died of famine, where development was a shared effort and prosperity was for all mankind.

16. While recognizing the new dimensions of the commodity problem, it was important to add to what has been achieved and not start from a vacuum. The objectives of the Integrated Programme for Commodities, as contained in Conference resolution 93 (IV), remained valid, as did all relevant resolutions

and decisions reflecting the increasing awareness on the part of the international community of the magnitude and the crucial importance of the commodity problem. The Board in its resolution 384 (XXXVII) had decided that "the objective of sustainable development, particularly the reduction of poverty, should be incorporated into all areas of UNCTAD's work at the intergovernmental level". The Group of 77 recognized the vital importance of the efforts to protect the environment, but believed that the conception of sustainable development should not constitute a new conditionality limiting the already limited opportunities of the developing countries. Those countries could not be expected to pay the price of the pollution created by the industrialized countries; on the contrary, it was the latter which bore an "ecological debt" towards the former, since the developed countries had the historical responsibility for most of that pollution. Two main areas should be highlighted: environmentally - friendly products of developing countries could be substituted for environmentally harmful ones currently in use; and an adequate level of commodity prices complemented with the correct national and international institutional set-up could lead to environmentally sounder agricultural and mineral production techniques and improved resource management. The Group of 77 believed that the solution to the problem of commodities of developing countries required that those countries should be enabled to obtain a larger and fairer share of the wealth and prices generated from their primary commodities through a multitude of policies and measures, especially adequate financing, access to technology, diversification and access to markets for processed exports of developing countries.

17. The spokesman for Group B (Germany) stated that since December 1988, the overall economic context in certain developing countries had not changed for the better. In addition to the harsh impact of low prices for some commodities of special interest to some developing countries and the pressure of servicing debt, the lower dollar and the negative impact of the Gulf crisis had recently contributed to making the situation more difficult for many countries. Group B recognized the seriousness of the situation and shared the concerns of its partners in the developing countries. However, there were signs of hope and possibilities for national as well as joint international efforts to improve the economic situation of developing countries, including action in the field of the Committee. These included the overall outlook for the performance of some important commodity consuming economies, the growing

consciousness among consumers in favour of environmentally-friendly processes and natural products, and the growing convergence of views among all UNCTAD members that the task and opportunities for tackling development, including commodity dependency, were primarily the responsibility of the developing countries themselves, while acknowledging the need for solidarity and partnership among developed and developing countries.

18. A number of observations by the secretariat were worth further consideration, in particular those relating to the role of domestic policies, particularly in the areas of producer prices, exchange rate policies, export taxes and marketing boards. Changes in such policies in the developing countries since the early 1980s, improving incentives for local producers, had had beneficial effects on agricultural exports.

19. The document on the commodity situation and outlook (TD/B/C.1/309) pointed to certain opportunities for commodity dependent developing countries. Group B regarded as worthy of elaboration the secretariat ideas on the role of research with regard to production techniques; potential opportunities for exporting developing countries with the modification of agricultural support policies, as well as the impact which may arise for food importing developing countries; shifting of production due to tighter environmental standards; developing countries as new poles of economic growth, to which Group B would add Central and Eastern Europe; and the use of research and development to promote the positive properties of commodities so as to enhance benefits for commodity exporters and consumers. Growth performance, the degree of diversification, and commodity dependency in the developing world were increasingly disparate. Discussion of the instability of commodity export earnings, price levels and variations in output, should be carried out in a more disaggregated manner - at the very least down to the level of a region, and preferably to that of individual countries. This was necessary if solutions for the most affected developing countries were to be found. The Fraser Report indicated, for example, that Africa needed particular attention in that respect.

20. Regarding the Committee's work programme, Group B welcomed the now standard practice for main UNCTAD committees to review their work programmes as a step towards providing greater transparency and efficiency. In its view, the helpful exercise undertaken two years earlier, resulting in the adoption of orientations for a work programme (agreed conclusion 25 (XIII)) should be repeated.

21. International commodity agreements, with or without economic provisions, study groups and other intergovernmental producer-consumer fora, represented important instruments of international commodity co-operation, but they were not the only ones. Adequate and effective tackling of commodity problems such as sharp price fluctuations, shortfalls in commodity export earnings, high dependency on the export of only one or two commodities and the imbalance between supply and demand, needed, in addition to national efforts on the part of the countries concerned, a multi-faceted international approach. Other such instruments included sound and viable vertical as well as horizontal diversification programmes. A third approach focused on a variety of existing compensatory financing systems. In addition to the EEC's STABEX and SYSMIN facilities and the Swiss programme, the IMF-Compensatory and Contingency Financial Facility should play an increasing role, contributing to reduce the vulnerability of commodity-dependent developing countries. It was Group B's hope that in the future more developing countries could benefit from that facility than had done so to date.

22. The solutions to the serious commodity problems, especially of low-income highly commodity-dependent least developed countries, could not be found only within the commodity field itself. Mention should be made in that connection of the importance of the trade negotiations in the Uruguay Round, especially the question of market access, including between developing countries, as well as infrastructure development, technical assistance and market research. The spectrum of instruments to tackle commodity problems within the commodity field itself was obviously limited, especially noting the less than satisfying developments since December 1988 in the area of agreements with economic provisions. After the suspension of the export quota system of the International Coffee Agreement and the economic provisions of the International Cocoa Agreement, the International Natural Rubber Agreement was the only such agreement with operating economic provisions left. Group B was deeply concerned about the countries which had been adversely affected by these developments. Group B countries, which were members of those agreements, had long been committed to them on condition that they were economically sound and following market trends. The International Coffee Agreement had been extended to provide time for reflection over the possibilities for renegotiation. That opportunity had also been given to the Cocoa Agreement. Group B members remained open for discussions about the question of moving towards renegotiation of economically improved agreements.

23. The functioning of the International Natural Rubber Agreement underlined the fact that agreements with economic clauses, if equipped with sound market-oriented economic mechanisms and enjoying the participation of all important producers and consumers, could operate satisfactorily. Each commodity had its own set of particular characteristics and success in international co-operation therefore depended on tailoring forms of producer-consumer co-operation to the specific characteristics of the products in question. There had been a number of constructive developments in the setting up of producer/consumer fora designed to promote commodity market transparency.

24. Group B welcomed the greater transparency given to UNCTAD activities in the secretariat's documentation on its activities involving co-operation with other international organizations. There were a number of areas which should be given priority in the future work programme: (a) international co-operation on diversification, processing, marketing and distribution, including transportation. In the light of the welcome conclusions of the DPMD Working Party which had finished its work the previous week, that task should involve practical solutions for the use of the countries concerned; (b) consideration of health and environmental questions in relation to commodity production and trade. After the welcome integration of the concept of sustainable development into UNCTAD's work, the secretariat could assist the Committee by investigating areas such as assessing the environmental impact of the use of synthetics in comparison to natural products or the promotion of natural raw material-based products of interest to developing countries. In that regard due attention should be given to the potential effects on trade, and to ensuring that both trade and environmental concerns were met, as, for example, through the "polluter pays" principle; (c) Continuation of the comprehensive review of the commodity situation and outlook, as agreed by the Committee at its thirteenth session. Elements appearing in agreed conclusion 25 (XIII) which had not yet been investigated should be looked into, with particular emphasis accorded to the place of developing countries and Eastern Europe as commodity consumers; (d) the process of consultations between producers and consumers on individual commodities not covered by international arrangements, but only where progress in such consultations to date had concretely demonstrated their appropriateness and feasibility; (e) consideration of ways and means to

enhance and improve the operations and functioning of existing commodity agreements/arrangements; and (f) the development of more widespread and rational use of financial instruments in commodity markets, including hedging and commodity swaps, to assist developing countries in reducing price and other commodity-related risks.

25. The representative of China stated that since the beginning of the 1980s individual commodities as a whole, though different in category and diversified in their own situations, had undergone a downward trend in terms of prices. Although the prices of certain commodities, such as some metal and mineral products, had picked up in the latter half of 1987, the developing countries had not gained the expected increase in export earnings from those rebounds, due to the fact that many of the transactions were undertaken at a level other than actual market prices. As from 1989, commodity prices as a whole had again slipped back and the developing countries had suffered tremendous economic losses because their export earnings fell far below the increase in their export volume. By contrast, some industrialized countries had reaped enormous benefits from their export of the same category of commodities. Looking into the 1990s, there was slight hope for an improvement of the commodity situation for developing countries.

26. The bleak situation for commodities was a result of the impact of periodical and structural factors affecting demand and the fluctuation of exchange rates and prices. In addition, some policy measures adopted by developed countries, such as tariff and non-tariff barriers as well as the production and export subsidies provided on their own primary and processed products, had constituted more formidable obstacles to developing countries in market access and increase of their export earnings.

27. That did not mean, however, that nothing could be done in the field of commodities. Conference resolution 93 (IV), which had been reconfirmed by UNCTAD VII, remained valid and had already achieved some positive results. However, for a number of complex reasons the measures provided for in that resolution, including the negotiation of international commodity agreements or arrangements, the improvement of market information and transparency, the improvement of market access, the improvement of the infrastructure for diversification, marketing and distribution, including transportation, the amelioration of compensatory facilities for export earnings shortfalls and the strengthening of research and development, all of which would remain valid for

a considerable period of time to come, had not been implemented thoroughly and vigorously. The international community should, for example, study and analyse the reasons for the success of certain international commodity agreements and for the failure of others, there being no justification for an over-simplified and arbitrary negative attitude towards all such agreements.

28. China hoped that positive results could be obtained in the negotiations on tropical products, natural-resource-based products and agricultural products within the Uruguay Round so as to provide favourable market access conditions for the commodities of the developing countries. China welcomed efforts to effectively solve individual commodity problems through international co-operation in the light of the specific situation of the commodities in question and the needs of different countries. Yet, a number of problems were common to many commodities. The single or combined adoption of the measures in the Integrated Programme for Commodities, including the Common Fund, was a key but not the only key to some of those problems. China hoped that international co-operation, and North-South co-operation in particular, would be further strengthened so as to find new and comprehensive solutions to the common problems of commodities which were closely related to problems in trade, development resources and other areas.

29. The representative of Italy, speaking on behalf of the European Economic Community and its member States, stated that the review of the commodity situation and outlook 1990 (TD/B/C.1/309) made a useful contribution to the ongoing dialogue in several fora on the problems affecting many commodity-dependent developing countries, but contained a number of assertions on the policies of industrialized countries which in the EEC's view were questionable. It nevertheless provided a useful point of departure for a detailed exchange of views and the suggested list of issues requiring attention in developing countries' policy considerations appeared to be correctly chosen. Referring to the Review of the Work Programme (document TD/B/C.1/311), he expressed the view that, as had been done at the thirteenth session of the Committee, the orientations for UNCTAD's work in the commodity field should be adopted as part of the agreed conclusions of the current session.

30. Exports of primary commodities continued to be a vital element in the economies of many developing countries and had a decisive influence on foreign exchange earnings and investment potential. There was structural imbalance

between supply and demand for several important commodities, which was unlikely to be radically altered in the foreseeable future. Therefore the diversification of commodity-dependent economies, whether horizontal or vertical, was therefore, a macro-economic objective which required serious consideration although it was a difficult option. In this connection, he expressed satisfaction at the outcome of the Working Party on Diversification, Processing, Marketing, Distribution including Transportation. He recalled that as part of its regional trade promotion activities under the Lomé IV Convention, the Community was financing a number of technical studies in individual commodities in which the potential for processing, marketing, distribution and transport was being assessed.

31. With regard to the Common Fund for Commodities and international commodity agreements, the Community looked forward to the start of Second Account operations and hoped that the Fund would gradually prove itself to be an effective organization. Recent experience with commodity agreements with economic provisions had been uneven, but the Community would continue to work with other members of the Coffee Agreeement for a fresh start in negotiations for a new Agreement and was of the view that the extension of the Cocoa Agreement should also provide an opportunity for mature and objective reflection on the question of moving towards the negotiation of a new agreement for cocoa, provided that the current financial problems could be rectified.

32. The Natural Rubber Agreement, on the other hand, with its trigger-price mechanism, the unique character of its producer membership and the special conditions of the market, illustrated the particular circumstances in which an international commodity agreement could bring a measure of stability to individual commodity markets while remaining consistent with long-term market trends. The International Tropical Timber Agreement, while different in character, provided a forum designed to promote a correct balance between conservation and exploitation of tropical forests, and the Community and its Member States had been very active in shaping the work of the ITO. The conclusions drawn by the Dublin and Houston summits had underlined the need to mobilize resources in the field of environment in general and of tropical forests in particular, and the Community was committed to giving practical support to these endeavours. Referring to the international study groups for a number of minerals, he noted that the Nickel Study Group had recently been

established in The Hague and that the agreed statutes for groups on copper and tin had been negotiated. The Community supported the dialogue on selected products between producers and consumers as a means of promoting transparency in market operations.

33. He reviewed developments in the Community's compensatory financing schemes and expressed its support for the Compensatory and Contingency Financial Facility of the IMF (IMF-CCFF). In that connection, he recalled that the recent United Nations Conference on Least Developed Countries had pointed to the need for a review of the IMF-CCFF in order to identify the means whereby the funds available under that instrument could be drawn upon most frequently. Other new initiatives in stabilizing the export earnings of commodity producing countries include the setting up by the World Bank of a unit to advise producer countries on measures to minimize the risk of significant variations in commodity prices, and UNCTAD's Train-for-trade, would advise developing countries on the techniques of intervening in commodities futures markets.

34. In conclusion, he expressed the Community's hope that the increasing potential of developing countries as substantial consumers of commodities should be further explored and that the relevant conclusions drawn in the report of the South Commission, "The Challenge to the South", should be followed up.

35. At the 209th meeting, on 12 November 1990, the Managing Director of the Common Fund for Commodities, reporting to the Committee on developments since the inaugural meeting of the Fund in July 1989, stated that the primary task had been to adopt the necessary regulatory mechanisms provided for in the Agreement establishing the Common Fund for Commodities. It had proved possible during that period to adopt the Staff Regulations and Rules, the Financial Regulations and Rules, and the Regulations and Rules for the Conduct of the Business of the Fund, for Second Account Operations, for the Procurement of Goods and Services, and for the Consultative Committee.

36. Highest priority had been given to making the Second Account operational as soon as possible and the Executive Board, at its recent meeting in October 1990, had designated nine International Commodity Bodies (ICBs) for the purposes of the Second Account and had drawn up a set of provisional guidelines and criteria for the determination of priorities among projects.

It was envisaged that the Consultative Committee would hold its first meeting early in 1991. The Fund was thus ready to receive project proposals from the designated ICBs and it was envisaged that the first projects could be approved during the second half of 1991.

37. The importance of those developments should not be underestimated. For the first time ever, a system was in place to assist producers and consumers who, within the framework of the Common Fund and ICBs, joined together in their efforts to improve structural conditions in commodity markets and to enhance the long-term competitiveness and prospects of particular commodities. He hoped that that would act as both an inspiration and a challenge: an inspiration for producers and consumers to intensify their co-operation and a challenge with respect to developing the most appropriate ways and means of addressing the problems of particular commodities.

38. With regard to the resources of the Fund, he pointed out that the capital subscriptions stipulated in the Agreement and the pledges of voluntary contributions had decreased in value in real terms and that the capital of the Fund was small compared to that of other international financial institutions. While the Fund clearly needed as much backing from the international community as possible, including financial backing, he nevertheless believed that the approach embodied in the Agreement remained a valid one and that, at the very least, the Fund could play a catalytic role for other sources of finance to join in a common effort to tackle commodity problems.

39. The Fund had been designed with the problems of developing producing countries in mind, especially those of the least developed countries and small producers-exporters. That concept was fully preserved in the present set-up of the Fund and it was now necessary to explore what impact the commodity focus could have on global development problems. The Fund stood ready to engage in that task in full co-operation with other international organizations and agencies as well as with its Members. It was his hope that in the foreseeable future the Fund would measure up to the expectations of its founding fathers by becoming an important agent in the development of the commodity sector, in particular in developing countries.

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Agenda item 8

DRAFT REPORT OF THE COMMITTEE ON COMMODITIES ON ITS FOURTEENTH SESSION

held at the Palais des Nations, Geneva,
from 12 to ... November 1990

Rapporteur: Mr. Vladimir PANKOV (Union of Soviet Socialist Republics)

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Chapter I

REVIEW OF THE COMMODITY SITUATION AND OUTLOOK

(Agenda item 3)

DIVERSIFICATION PROCESSING MARKETING AND DISTRIBUTION INCLUDING TRANSPORTATION

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REVIEW OF THE WORK PROGRAMME OF THE COMMITTEE WITH PARTICULAR REFERENCE TO THE RESULTS OF INTERGOVERNMENTAL CONSULTATIONS HELD PURSUANT TO THE RELEVANT PARAGRAPHS OF THE FINAL ACT OF UNCTAD VII

(Agenda item 5)

(continued)

40. The representative of the USSR said that the inclusion of the issue of commodities in the agenda for UNCTAD VIII testified to the fact that the present commodity situation was far from encouraging. It also focused attention on the role UNCTAD should play in establishing and strengthening multilateral co-operation in world commodity trade. His delegation was generally in agreement with the estimates and evaluations made by the UNCTAD secretariat regarding the present complex world commodity situation, which was hampering the processes of restructuring under way in developing countries and was increasing their balance-of-payment deficits and indebtedness. International efforts undertaken in the field of commodities did not fully provide for the attainment of the objectives of the Final Act of UNCTAD VII. The Common Fund for Commodities was not yet fully operational and within existing ICAs producers and consumers were often unable to co-ordinate their interests, with the result that those ICAs in some cases became passive witnesses of world market developments.

41. With reference to the processes under way in the USSR, he expressed the hope that they would have a positive effect on the import of commodities from developing countries, given adequate flexibility on their part. In that context the practical support given by UNCTAD to developing countries might be of relevance. His delegation welcomed the analysis of the present processes under way in the USSR and would appreciate it if that analysis would be followed by specific proposals and assistance, particularly from international organizations. He emphasized that in the field of commodities each of the

countries of Eastern Europe had its own specific characteristics, and that in particular, the USSR differed from other countries of Eastern Europe in the structure of the economy, the availability of the resources and the momentum of change in the domestic and foreign economic sectors.

42. Referring to the role of UNCTAD in international commodity issues, he pointed to the utmost importance of UNCTAD VIII and to the need to be future-oriented and forward-looking, and expressed the hope that the current session of the Committee would identify the orientations which UNCTAD VIII should give to the strengthening of multilateral co-operation in the commodity field. Such co-operation would hardly be possible without close co-ordination between all the international organizations working in the field of commodities as well as between the representatives of countries and secretariats of those organizations. UNCTAD could perhaps give some thought to elaborating a uniform concept for co-ordinating the activities of all international organizations working in the field of commodities. It was also essential to take into account the outcome of the Uruguay Round. In that connection, it might be appropriate for the secretariat to prepare for UNCTAD VIII a special feasibility study regarding the future orientations of UNCTAD's work in commodities, taking also into account the relevance of the IPC.

43. It was the understanding of his delegation that UNCTAD should continue to monitor existing compensatory financing schemes. As to the DPMD issues, he emphasized that developments such as the new stage reached the technological revolution and recent structural changes in economies should be taken into account in the analysis of DPMD issues. The Working Party on DPMD had done a great deal of very useful work and at its last session the USSR had made specific proposals for further work in that field. In conclusion, he listed a number of additional issues for further studies to be prepared by the UNCTAD secretariat in the field of DPMD.

44. The representative of Japan said that depressed international commodity markets had severely affected the economic performance of commodity-dependent developing countries. Some developing countries had however cast off monoculture, and had successfully diversified their economic structures and increased the processing levels of their products, thus demonstrating the necessity and the importance of self-help efforts. To facilitate the process of diversification Japan had been providing grant aid, technical co-operation and development studies to support wide-ranging projects in the areas of

agriculture, fisheries and mining, and was firmly determined to continue those forms of bilateral co-operation. In the absence of significantly faster economic growth, further intensified trade and other economic co-operation among developing countries also had growing importance in coping with over-supply. On the multilateral side, full use of existing compensatory facilities for export earnings shortfalls was called for to complement the limited resource base of developing countries. Likewise, the Common Fund, especially its Second Account, could play a significant role. As one of the biggest contributors to the Fund, Japan was looking forward to the earliest possible start to the Second Account operations.

45. Referring to the Japanese proposal for a "Round Table" for improved processing of commodities made at UNCTAD VII, he expressed his Government's hope that the "Round Table" would be set up at the earliest possible time. Japan had great interest in the recommendations contained in the Fraser report because they were relevant not only to Africa's commodity problems but also to global commodity issues. In conclusion, he pointed out that the current session of the Committee was of unique importance as the last before the eighth session of the Conference. Its outcome would undoubtedly give a decisive orientation to the work of UNCTAD in the area of commodities.

46. The representative of Chile emphasized the urgent need to break the circle of concentration of wealth in a few countries while millions of human beings were neglected. UNCTAD had a crucial role to play in achieving that objective, but its role had been seriously threatened and undermined in recent years. He recalled that during the 1960s and 1970s UNCTAD had become a symbol of freedom not only from fear but also from hunger. Through its Integrated Programme for Commodities and the promotion of the New International Economic Order, it had acted as a catalyst for closing the gap between rich and poor countries. Since 1976, however, that "dream" had faded to the point that the goals of attaining world peace, justice and equitable wealth distribution were not even mentioned any more. Other concepts, such as the primacy of free market forces, had become central subjects of discussion in international fora. While he was not against profits as an engine for growth and development, in his view free market forces did not always lead to fair results and somebody had to correct them. He called upon the Group of 77, but especially on the developed countries, which were at the winning end of the present system, not to let UNCTAD deteriorate and become a dying light, but to protect, strengthen and emphasize its role in the United Nations system. Poor

countries were selling primary commodities to rich countries at prices that were half what they had been during the last 20 years. Not all the responsibility for the present disaster in developing countries was attributable to outside factors, however. For a New International Economic Order to be effective, parallel New National Economic Orders had to be created.

47. The representative of Ecuador expressed her country's concern at the sharp drop in primary commodity prices which, in view of the fact that 80 per cent of the export earnings of about 40 developing countries originated in primary commodity trade had a serious adverse effect on the economies of developing countries and contributed to their impoverishment. She noted that progress so far in the Uruguay Round had been minimal and did not correspond to the expectations of developing countries. She wished to denounce to the international community the particular problems encountered by banana exports in most developed country markets and strongly urged the European Community, in line with GATT provisions and with the concept of free trade which it advocated, to abstain from adopting decisions which would upset the present balance of banana trade within the Community. She appealed to all countries to join forces in fostering greater international co-operation in order to reverse the negative situation that prevailed in commodity markets. Welcoming the establishment of the Common Fund for Commodities, the goal which had taken more than a decade to be realized, she expressed the hope that it would live up to the expectations that had been placed in it.

48. The developing countries placed their hopes in achieving positive results in the Uruguay Round, particularly for those countries highly dependent on primary commodities. The Committee on Commodities, the Trade and Development Board and UNCTAD VIII were the appropriate fora for attaining justice and international solidarity taking particular account of the interests of developing countries.

49. The representative of Panama said that, given the existence of persistent over-supplies, falling prices and the scale of protectionism in developed countries, it had not been possible to improve the situation of chronic disequilibria in world commodity trade. On the other hand, malnutrition, poverty and hunger still persisted.

50. For his country, production and export of bananas were of vital importance and any restrictions on its exports would have adverse economic and socio-political repercussions in view of the fact that dependence on commodity

exports had increased in recent years. Because of that, the removal of tariff barriers, of selective internal taxes on commodity trade and non-discrimination had become essential for reactivating the economy.

51. Panama was concerned about the possible impact of the creation of the Single European Market on trade in bananas, which was of great importance for many developing countries as an important source of export earnings. Trade of this typically tropical fruit could not be neglected, especially in the light of the priority status given to tropical products in the Punta del Este Declaration.

52. He expressed the view that careful consideration would need to be given to the results of the technical consultations on banana projects being held during the current month in FAO, as well as the possibilities of resuming consultations between producers and consumers, with a view to convening a second preparatory meeting on bananas in UNCTAD.

53. In conclusion, he stressed the crucial need for concrete and timely international decisions and actions with regard to commodity markets and expressed the hope that resolutions to emerge from the present session of the Committee would send a clear message in this direction to the final phase of the multilateral trade negotiations in GATT.

54. The representative of Sudan emphasized the importance of commodity exports to developing countries, particularly to the least developed countries. Referring to the problems facing developing producing countries, he pointed out that, in addition to unfavourable market forces such as falling prices and sluggish demand for raw materials, exporting producing countries had been beset by climatic extremes such as droughts and other natural disasters. Those problems constituted a stumbling block that prevented the commodity sector from providing the impetus for economic development. He expressed the hope that the commodity problems would be appropriately addressed in an objective fashion before UNCTAD VIII, and called for special attention to be given to the conditions existing in least developed countries. With regard to compensatory financing, he hoped that appropriate and effective policies might be identified in the near future, and that the necessary resources might be found and market access facilitated to help relieve the burden of the least developed countries. He concluded by emphasizing the importance of co-operation between producers and consumers of commodities.

55. The representative of Switzerland stated that the sizeable fluctuations of prices during the 1980s had provided sufficient evidence that the commodity sector worldwide had arrived at a turning point. His country noted with concern the economic difficulties many commodity producing countries had to face in terms of the decline in investment in the primary sector, the decay of plant and equipment, the disastrous environmental effects of the over-exploitation of resources, the slow pace of increased processing, the shortage of funds for diversification and the slow pace of adjusting to stagnating or declining demand. Accordingly, the objective of the deliberations of the Committee and UNCTAD VIII was twofold: on the one hand to devise means of reinforcing international co-operation; on the other to define a coherent strategy. In this regard he stressed that discussions should be based on two points of departure. Firstly, the prime responsibility for adjustment in the political and technical spheres rested with the producing countries themselves. Secondly, as reiterated by the Fraser report, a good deal of liberalization of the indigenous economy and foreign trade was needed by the commodities economy.

56. In the area of international co-operation, his country considered that effective measures to liberalize trade within the framework of GATT constituted the best strategy to cope with the problems of commodity trade. Switzerland had long been committed to various international commodity agreements and, while it shared the view of Group B that those agreements should be equipped with sound market-oriented economic mechanisms and should attract the participation of most important exporting and importing countries, it was ready to participate in negotiation and renegotiation of some international commodity agreements. In the same vein, it welcomed initiatives launched with a view to enhancing market transparency such as the formation of intergovernmental study groups. The Swiss Government was willing to contribute constructively to discussions on fostering the transfer of technology as well as funds to support the different forms of structural adjustment programmes implemented by developing countries commodity producers. In this regard he welcomed the entry into operation of the Second Account of the Common Fund and said that his Government would soon transfer the first part of its voluntary contribution.

57. Turning to measures taken by the Swiss Government autonomously, he said that Switzerland attached particular importance to harnessing the expertise of various international organizations and was thus one of the most important

donors to bodies such as UNCTAD, UNIDO, ITTO, IJO, ITC and IIC. With regard to the compensation of export earning shortfalls, he stated that the sum of SF 40 million, earmarked for that purpose by his Government and announced during UNCTAD VII, had made it possible to meet all shortfalls of least developed countries in commodity exports to Switzerland in the period 1986-1989. He added that the Swiss Parliament had decided in September to considerably augment resources for that programme. In conclusion, he drew attention to the special tariff preferences accorded to processed agricultural products imported by Switzerland from the LLDCs and said that the degree of openness characterizing the Swiss market for manufactures favoured exports from developing countries having a wider economic infrastructure.

58. The representative of the United States of America, referring to the rather pessimistic assessment of the commodity situation put forward by some speakers, drew attention to the increases in export earnings of developing countries from commodities in recent years and to the likelihood that economic growth in developing countries was likely to continue to be more buoyant than in the industrialized countries. During the 1980s, economic performance had differed dramatically among developing countries and it was for that reason that, in addressing developing countries' dependency on commodities, emphasis should be placed on domestic action.

59. With regard to the evolution of patterns of commodity trade, he pointed out that traditional North-South flows were clearly broadening to encompass expanding South-South trade and growth opportunities in Eastern Europe. The track record of international commodity agreements with economic provisions demonstrated that they were difficult to negotiate and implement. In general, these agreements had proved to be an unfeasible means of reducing commodity price instability and even the International Coffee Agreement had failed. Members of that Agreement had expressed a strong desire for a new agreement that would avoid past problems but political will alone was not able to overcome market forces.

60. In the view of the United States, efforts to promote expansion of the facilities or resources of international financial institutions should not be pursued in UNCTAD. There were, however, a number of areas, as identified by the Working Party on DPMD, in which action could improve the commodity situation. There was a need for further research and analysis on diversification, including government policies, for greater use of producer-consumer fora and market transparency, including the development of

UNCTAD's computerized information and analysis system; and for identification of the needs and gaps in technical assistance. Now that the Working Party had concluded its work, the Committee should give clear guidance for further work in that area including indicating areas in which lessons could be drawn by sharing actual country experiences. Future work of the Committee should focus on viable projects and relevant issues and old debates reflecting obvious and long-standing divisions, should not be reopened.

61. The Vice-Chairman-cum-Rapporteur of the Working Party on Diversification, Processing, Marketing and Distribution, including Transportation presented to the Committee the reports of the Working Party on its second and third sessions, together with its agreed conclusions (TD/B/C.1/L.94). Noting that the Working Party had examined the five areas mandated to it by the Committee, she said that the Working Party had basically begun, in respect of each of the five areas, to diagnose the problems and then to suggest actions which should be taken towards solving them. It had also recognized that the work on diversification, processing, marketing and distribution needed to be continued and was a very important element of the work of the Committee, and that the research, analysis and actions it had suggested would need to be reviewed and discussed by the Committee. The Working Party had felt, however, that it was for the Committee to decide whether the work of the Working Party was completed and on the manner in which future work should be organized.

62. The Executive Director of the International Trade Centre UNCTAD/GATT, outlining the Centre's commodities-related activities in diversification, processing, marketing and distribution, described the programme components relating to market research and development, processing, the identification of substitutes and the upgrading of skills through in-service training of personnel from developing countries with major commodity traders and processors through international commodity-specific training events. He drew the Committee's attention to the increasing demand for technical assistance as a result of liberalization policies in producing countries, and to the corresponding increase in ITC activities in technical and market information dissemination through commodity-specific handbooks and computerized market intelligence systems, as well as the ITC Market News Service. He also referred to ITC's activities in cross-commodity areas such as the operation of commodity exchanges and export financing.

63. Noting the increasing importance of Eastern European countries and of developing countries as markets for commodity exports of other developing countries, he said that ITC's activities were being increasingly directed towards strengthening co-operation between commodity exporting and importing developing countries, and towards the expansion of exports to Eastern Europe. He estimated ITC's budgetary requirements for its work in commodities for the next four years at $US 30 million. He reiterated the Centre's intention to pursue the identification and preparation of projects and programmes on developmental measures, and its readiness to put its technical expertise in trade promotion at the disposal of international commodity bodies and the Common Fund.

64. The representative of FAO pointed to the cost-effectiveness and flexibility of FAO's network of intergovernmental commodity bodies in adapting to new challenges, including that offered by the Common Fund. He up-dated the information provided in document TD/B/C.1/311 regarding the activities of the FAO Intergovernmental Groups on Bananas; Hard Fibres; Oilseeds, Fats and Oils; Meat; and Tea, and stressed that their relationship with the Common Fund, and particularly its Second Account, had been a central theme at the recent session of these groups and of virtually all other FAO commodity bodies. FAO's governing bodies had consistently encouraged the use of the Organization's commodity bodies, together with its wide-ranging technical expertise, in operations under the Second Account, through the developing of co-operative arrangements between those bodies and the Common Fund. Seven of the intergovernmental groups, one subgroup and the Sub-Committee on Fish Trade had unanimously agreed to encourage the Director-General of FAO to approach the Common Fund requesting it to designate them as ICBs. The Director-General of FAO had transmitted those requests to the Common Fund and it was expected that the Fund's Executive Board would deal with them at its next meeting in February 1991. In anticipation of their designation as ICBs most FAO Intergovernmental Groups had already completed or were initiating the formulation of project proposals for sponsoring by the Common Fund. In accordance with the Fund's Regulations and Rules for Second Account Operations, environmental aspects would be covered in the project proposals. That was particularly relevant to intergovernmental groups dealing with agricultural raw materials, notably those on hard fibres and jute, which were at an advanced stage of comparative analysis of the respective environmental damage caused by natural fibres versus their competing synthetic substitutes

and the impact on trade and sustainable development of the natural fibre economies, in line with an FAO conference resolution which, in late 1989, had assigned highest priority to the issue of environment and sustainable agricultural development in FAO's programme of work. He further drew the attention of the Committee to the technical support provided to the GATT secretariat and to interested developing countries in formulating policy positions in the context of the Uruguay Round of Multilateral Trade Negotiations, and in negotiations in the field of sanitary and phytosanitary regulations. FAO would continue to provide support to ECDC through workshops to promote trade on selected commodities, and advice on national commodity policy formulation. Finally, a new round of production, consumption and trade projections covering most agricultural commodities of any significance was expected to be completed by 1992.

65. The representative of Australia stated that the Fraser report recommended a series of programmes and policy actions that could assist African economies in improving their development capabilities. The report noted, however, that opportunities had to be provided for expansion of African exports to major markets in order to improve their development potential, particularly in Europe.

66. Australia had a vital long-term interest, together with developing countries, in a competitive and market-responding commodity trading system. It regarded a successful outcome of the Uruguay Round as critical to the liberalization of commodity trade through improved market access, reduced internal barriers and phasing out of export subsidies. Australia's efforts in this area emphasized the underlying causes of the serious problems affecting commodity trade rather than treating the symptoms, e.g. through short-term stabilization measures which only further aggravated long-term distortions. The extent and impact of subsidization and protectionism were major factors underlying the serious problems of world commodity trade. OECD had estimated that the cost of agricultural support measures reached $US 245,000 million in 1989 in OECD countries, which demonstrated that trade-related measures represented the key element in an effective and lasting solution to the commodity problem. In particular, the reduction of agricultural support would achieve more efficiently functioning market mechanisms and would support development efforts, including diversification and adjustment programmes. Many developing countries still derived more than 75 per cent of their export earnings from non-fuel commodities and the income they forfeited, as a result

of protectionist measures, had a direct impact on consumption and on their participation in the international trading system. Reductions in protectionism, therefore, had the potential to contribute to a significant expansion of world trade, with benefits for all countries. It would also have a substantial beneficial effect on the capacity of many debtor countries to meet their debt-service obligations.

67. He underlined the importance of a successful outcome of the Uruguay Round, since commodity trade liberalization would support the development efforts of developing countries and facilitate the continuation of diversification and adjustment policies, whereas continuation of current trends could further undermine world trade and weaken the international financial systems.

68. The representative of Egypt noted that international trade in commodities had been characterized by a deterioration in the terms of trade and a high degree of uncertainty, coupled with variations in output which made it difficult for developing countries highly dependent on commodities to undertake long-term development planning or to implement adjustment programmes. The particularly serious situation of the least developed countries and African countries highly dependent on the commodity sector required special support from the international community, as has been highlighted in the Fraser report on the problems of the African commodity sector.

69. The protectionist measures facing developing countries' exports of commodities in their raw, processed or semi-processed forms should be effectively reduced in the ongoing negotiations in Uruguay Round, which should also address the specific concerns of the developing countries which were net importers of foodstuffs. On their part, developing countries needed to undertake research and development activities in their commodity sector. Such efforts required increased access to finance, particularly for horizontal and vertical diversification. Developing countries needed the transfer of technology on a preferential basis, particularly to make use of advances in biotechnology and genetic engineering in the commodity sector, and to have better information on commodity market structures at the international level.

70. Concerning compensatory financing for export earnings shortfalls, he reiterated the request of the Group of 77 that the need for establishing a new international financing facility should be further studied. While

acknowledging the contributions of STABEX and the Swiss programme he believed that there was room for improving the scope, coverage and conditions of all existing compensatory financing mechanisms.

71. Much work remained to be done to achieve a better functioning of international commodity markets and more stable and predictable conditions in commodity trade. That would require strengthening the co-operation between producers and consumers and continuation of the support provided to the Common Fund. There was also a need to study in depth the recent changes in Eastern Europe and their positive and negative potential implications for the commodity sector of developing countries.

72. The representative of Indonesia, endorsing the general thrust of the remarks by the spokesman for the Group of 77, stressed the persistence of many problems regarding commodities, particularly their continuing low and unstable prices, hampering national policy planning. He remarked that, despite their continuing relevance, very few policy proposals adopted at UNCTAD VII had been implemented. The outlook for commodity-dependent countries remained bleak, owing to both structural and cyclical factors.

73. He noted the importance of national commodity policy in making developing countries no longer dependent solely on commodities as the basis for their development. Progress in the Uruguay Round was called for in order to improve market access for developing countries' products. He welcomed the efforts made to make the Common Fund for commodities operational, and emphasized the need to inject new vigour into international commodity co-operation, in order to preserve the spirit and objectives of the Integrated Programme for Commodities. Setting up international commodity bodies would inspire producers and consumers to intensify their co-operation in respect of particular commodities.

74. The representative of Nigeria stated that his Government in its structural adjustment programme has placed special emphasis on the promotion of exports in the non-oil sector as well as on the processing and greater utilization of local raw materials. Regrettably, the effort was hampered by persistent falls in the world prices of commodities and an unfavourable international trading environment.

75. Referring to the secretariat's response to Nigeria's call for assistance in the area of diversification, processing, marketing and distribution, including transportation, he expressed the hope that adequate resources would

be provided for UNCTAD for follow-up action on the various issues highlighted in the report of the Programming Mission to Nigeria and for further co-operation between the secretariat and his country.

76. His country was a firm believer in the Integrated Programme for Commodities, which emphasized international co-operation between producers and consumers in the field of commodities, and hoped that both accounts of the Common Fund would be made operational as soon as possible. In conclusion, he called on the developed countries to pay special attention to African commodity problems as outlined in the report of the United Nations Secretary-General's Expert Group on Africa's Commodity Problems.

77. The representative of China noted that the agreed conclusions adopted by the Working Party had provided guidance to the future work of UNCTAD in the area of diversification, processing, marketing and distribution. In implementing those conclusions, the international community should take into consideration the following points. Developing countries should take their own responsibilities in the area of DPMD, particularly in policy and decision making. The international community should create favourable external conditions to ensure the success of the efforts of the developing countries. Bilateral donors and international organizations should provide developing countries with adequate technical assistance in areas related to DPMD. Developed countries and international financial institutions should increase official financial flows to developing countries. The developed countries were invited to adopt measures to encourage private investments in highly commodity-dependent developing countries. In addition to the improvement of existing financial facilities, the possibility of the establishment of a new financial facility exclusively for DPMD purposes could be explored. Commitments to remove and reduce tariff and non-tariff barriers to facilitate the access to markets for commodities and processed products from developing countries should be fulfilled. In its research work especially with regard to country experiences and impact of government policies, the secretariat should make objective analyses in the light of the agreed conclusions, taking into special consideration the problems of highly commodity-dependent countries and least developed countries.

78. He also noted difficulties in the functioning of some international commodity agreements and the limited progress achieved in the consultations on commodities not covered by agreements. He suggested that in its future work

the secretariat should emphasize the following areas: review of the commodity situation and outlook; improving the functioning of existing commodity agreements and promoting the conclusion of new agreements; increasing international co-operation in the area of DPMD; monitoring the effects of the outcome of the Uruguay Round and promoting access to markets for primary and processed products originating from developing countries; improving existing compensatory financing mechanisms and exploring the possibilities of establishing a new facility; and urging the Common Fund for Commodities to exert every effort to make both the First and the Second Accounts operational as soon as possible in order to realize all the objectives as set out in the Agreement on the Fund.

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Committee on Commodities
Fourteenth session
Geneva, 12 November 1990
Agenda item 8

DRAFT REPORT OF THE COMMITTEE ON COMMODITIES ON ITS FOURTEENTH SESSION

held at the Palais des Nations, Geneva,
from 12 to ... November 1990

Rapporteur: Mr. Vladimir PANKOV
(Union of Soviet Socialist Republics)

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Chapter II

ORGANIZATIONAL MATTERS

A. Opening of the session

79. The fourteenth session of the Committee on Commodities was opened on 12 November 1990 by Mr. Stéphane Gompertz (France), Chairman of the Committee at its thirteenth session.

B. Election of officers

80. At the 208th meeting, on 12 November 1990, the Committee elected the following Bureau:

Chairman: Mr. Ahmed Abdel-Wahab GUBARTALLA (Sudan)

Vice-Chairmen: Mr. Jean-Luc CHOUINARD (Canada)
Mr. H.S. DILLON (Indonesia)
Mr. Emile M'LINGUI KEFFA (Côte d'Ivoire)
Mr. Henri NOLARD (Belgium)
Mr. Radomiro TOMIC (Chile)

Rapporteur: Mr. Vladimir PANKOV (USSR)

C. Adoption of the agenda and organization of work

(Agenda item 2)

81. At the 209th meeting, on 12 November 1990, the Committee adopted the provisional agenda approved by the Committee at its thirteenth session as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Review of the commodity situation and outlook
4. Diversification, processing, marketing and distribution, including transportation
5. Review of the work programme of the Committee, with particular reference to the results of intergovernmental consultations held pursuant to the relevant paragraphs of the Final Act of UNCTAD VII
6. Provisional agenda for the fifteenth session of the Committee
7. Other business
8. Adoption of the report of the Committee to the Trade and Development Board

82. In the context of the organization of work, it was agreed that, after an opportunity had been given to groups and individual delegations to make statements in the plenary on all items of the agenda, further discussions on item 3, 4 and 5 would be conducted in informal plenary meetings. It was also

agreed that in the course of the session there would be an informal meeting on the Common Fund at which delegations would have an opportunity to put questions to the Managing director on developments in the Fund. Also in the course of the session the secretariat would hold informal consultations with interested countries on the terms of reference for the copper and tin study groups, as well as the future of the interim arrangement for maintaining the collection and dissemination of statistical information on the international tin economy.

83. In the above connection, the Chairman, indicated that it had been agreed by the Bureau and Group spokesmen that, in the light of Board decision 379 (S-XXVI), in which the board decided that "the first review on the compensatory financing of export earnings shortfalls by the Committee on Commodities should take place prior to the eighth session of the Conference," the Committee would carry out that review in the context of agenda item 3.

84. The spokesman for the Group of 77 (Egypt) said that his Group would have preferred the question of compensatory financing to figure as a specific item in the agenda. However, in a spirit of compromise to expedite the Committee's work and avoid controversy the Group had accepted the inclusion of the issue under item 3. Nevertheless, the Group of 77 hoped that compensatory financing would appear as a separate item in the agenda for the fifteenth session.

D. Membership and attendance

85. The following States members of UNCTAD, members of the Committee, were represented at the session: Algeria; Argentina; Australia; Austria; [Bahrain]; Bangladesh; Belgium; Bolivia; Brazil; Bulgaria; [Burkina Faso]; [Burundi]; Cameroon; Canada; [Central African Republic]; [Chad]; Chile; China; [Colombia]; [Costa Rica]; Côte d'Ivoire; Cuba; [Czechoslovakia]; Democratic People's Republic of Korea; Denmark; Dominican Republic; Ecuador; Egypt; El Salvador; [Ethiopia]; Finland; France; [Gabon]; Germany; Ghana; Greece; [Guatemala]; Guinea; [Haiti]; [Honduras]; Hungary; India; Indonesia; [Iran (Islamic Republic of)]; Iraq; Ireland; [Israel]; Italy; [Jamaica]; Japan; Jordan; Kenya; Kuwait; [Liberia]; Libyan Arab Jamahiriya; Madagascar; Malaysia; [Malta]; [Mauritius]; Mexico; Morocco; Myanmar; Netherlands; [New Zealand]; [Nicaragua]; Nigeria; Norway; [Pakistan]; Panama; [Paraguay]; [Peru]; Philippines; Poland; Portugal; [Qatar]; Republic of Korea; [Romania]; [Rwanda]; Sao Tome and Principe; [Saudi Arabia]; Senegal; Somalia; Spain; Sri Lanka; Sudan; Sweden; Switzerland; [Syrian Arab Republic]; Thailand;

[Togo]; [Trinidad and Tobago]; Tunisia; Turkey; [Uganda]; United Arab Emirates; Union of Soviet Socialist Republics; United Kingdom of Great Britain and Northern Ireland; United Republic of Tanzania; United States of America; [Uruguay]; Venezuela; Viet Nam; [Yemen]; [Yugoslavia]; Zaire; Zimbabwe.

86. The following other State member of UNCTAD, not member of the Committee, was represented at the session: Lebanon.

87. The United Nations Development Programme was represented at the session. The International Trade Centre UNCTAD/GATT was also represented.

88. The following specialized and related agencies were represented at the session: International Labour Organisation; Food and Agriculture Organization of the United Nations; International Monetary Fund. The General Agreement on Tariffs and Trade was also represented.

89. The following intergovernmental organizations were represented at the session: Common Fund; 1/ European Economic Community; Organisation for Economic Co-operation and Development; Organization of African Unity; Commonwealth Secretariat.

90. The following non-governmental organizations were represented at the session: General Category: Women's International League for Peace and Freedom; World Federation of United Nations Associations.

E. Provisional agenda for the fifteenth session of the Committee

(agenda item 6)

[To be completed]

F. Other business

(agenda item 7)

[To be completed]

G. Adoption of the report of the Committee to the Trade and Development Board

(agenda item 8)

91. At the closing meeting, on ... November 1990, the Committee adopted its draft report (TD/B/C.1/L.95 and Add.1-2) and authorized the Rapporteur to complete the final version as appropriate.

1/ Specially invited by the secretariat.

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TRADE AND DEVELOPMENT BOARD
Committee on Commodities
Fourteenth Session
Geneva, 12 November 1990
Agenda items 3, 4 and 5

REVIEW OF THE COMMODITIES SITUATION AND OUTLOOK

DIVERSIFICATION, PROCESSING, MARKETING AND DISTRIBUTION, INCLUDING TRANSPORTATION

REVIEW OF THE WORK PROGRAMME OF THE COMMITTEE, WITH PARTICULAR REFERENCE TO THE RESULTS OF INTERGOVERNMENTAL CONSULTATIONS HELD PURSUANT TO THE RELEVANT PARAGRAPHS OF THE FINAL ACT OF UNCTAD VII

Agreed conclusions */

1. The Committee noted that developments in world commodity trade embraced changes in structures and patterns as well as depressed price levels for many commodities of importance to developing countries. Commodity prices continue to fluctuate and shortfalls continue to be experienced by many developing countries in export earnings from commodities. Long-term trends in many commodity prices have tended to decline.

2. The Committee noted that the changes in Central and Eastern Europe may have important effects for commodity production and trade. It agreed that those developments, as well as the potential for expanding South/South trade in commodities, should be fully explored. The Committee called for a better understanding of the impact of the debt problem of developing countries on supply and demand of commodities. The link between economic growth and commodity demand could also be further explored.

*/ As adopted by the Committee at its 213th meeting, on 20 November 1990.

3. The Committee agreed that international commodity agreements and arrangements can have an important role to play in resolving commodity problems, where they involve the participation of all major producers and consumers and where they aim at improved transparency and better functioning of commodity markets.

4. In seeking lasting solutions to problems in the commodities areas, the Committee recognized the need to take into account the varying performances between countries and regions and among commodities.

5. In light of the commodity situation and outlook, the Committee suggested that the following could be explored during the preparatory process for and at UNCTAD VIII:

(a) Structural disequilibria in commodity markets and actions to bring about a better supply and demand balance, giving attention to efforts to improve demand;

(b) Access to markets following the outcome of the Uruguay Round;

(c) Relationship between sustainable development and all relevant aspects in the area of commodities;

(d) Diversification in the context of the contribution of the commodity sector to overall development, including financial aspects;

(e) Both domestic and international investment flows and the creation of a competitive favourable enabling environment for development, including social and physical infrastructure;

(f) Strengthened producer/consumer co-operation where feasible and appropriate;

(g) Complementarity between domestic and international commodity policies; and

(h) Lasting solutions to deal effectively with the short-, medium- and long-term problems in the commodities area.

6. The Committee noted that according to the secretariat documents there were continuing significant shortfalls in commodity export earnings of developing countries. It agreed that all the facets of the problem of commodity export earnings shortfalls should be considered, namely their causes and instruments for dealing with them and, in the latter regard, including inter alia the possible improvement of existing instruments.

7. The Committee also agreed, in accordance with Board decision 379 (S-XVI), that the issue should form part of the ongoing work of the Committee on Commodities, and that commodity export earnings shortfalls and compensatory financing should figure as a specific issue for discussion at its next session under the review of the commodity situation and outlook.

8. The Committee agreed that the work on diversification, processing, marketing and distribution was a priority element in its future activities. It endorsed the agreed conclusions of the Working Party on Diversification, Processing, Marketing and Distribution, including Transportation contained in document TD/B/C.1/L.94. In the above connection particular attention should be paid to identifying practical measures and actions, especially for highly-commodity-dependent and for low-income developing countries. In this regard, the Committee agreed that due attention should be paid in its work to the specific problems of the least developed countries, in the light of the relevant parts of the Programme of Action adopted by the Second United Nations Conference on the Least Developed Countries in September 1990 and bearing in mind UNCTAD report TD/B/C.1/312.

Orientations for the work programme of the Committee

A. Review of the commodity situation and outlook

9. The Committee shall continue to undertake a comprehensive review of the commodity situation and outlook. In this regard certain issues, notably the impact of technological advances and government policies on market access, supply and consumption of commodities, and changes in marketing and pricing systems and practices, require further attention, as well as additional issues of increasing importance to the commodity sector such as the impact of exchange rates on commodity prices and environmental considerations in terms of both their positive and negative effects. The Committee shall also continue to examine the impact of financial constraints, including debt-servicing, on the volume of commodity exports; the link between international commodity prices and relevant domestic prices; as well as the relationship between economic growth in the main commodity consuming countries and commodity demand. The Committee shall continue to review the problem of commodity export earnings shortfalls of developing countries arising from market instability as well as the question of compensatory financing of export earnings shortfalls, including causes, consequences and instruments such as compensatory financing; financial instruments such as hedging, commodity swaps, etc. to assist developing countries in managing price and other commodity-related risks.

B. Individual commodities

10. In order to strengthen international co-operation between producers and consumers and improve transparency and predictability in commodity markets and commodity trade, the Committee shall consider ways and means to improve the operation and functioning of existing international commodity agreements or arrangements. The process of consultations between producers and consumers on individual commodities not covered by international arrangements shall only proceed where progress in such consultations has concretely demonstrated the appropriateness and feasibility of their continuation. The Committee shall keep under review developments in the setting up of producer/consumer fora, which can effectively promote transparency and the better functioning of commodity markets, with a view to enhancing such co-operation.

C. International co-operation on diversification, processing, marketing and distribution including transportation (DPMD)

11. The Committee agreed to pursue and intensify its work on DPMD in the light of the conclusions of the Working Party. This task should involve practical solutions, including the development within UNCTAD's mandate of a micro-computer-based commodity information and analysis system (MICAS) to assist in storing and analysing world-wide information on commodities.

12. The Committee agreed that it needed to continue to review the issues identified by the Working Party requiring further research and analysis and other action, with a view to identifying specific practical measures and actions, especially for highly commodity-dependent and for low-income developing countries. In this regard, it decided to give priority to the impact of market conditions in exporting and importing countries with regard to diversification, including government policies, structural adjustment, forms and methods of trading and technical assistance.

13. The Committee recommended to the Trade and Development Board that the question of DPMD should be a separate item on the agenda for its fifteenth session and that the session should be for nine working days. The manner in which future work should be carried out after that session would be determined at the same session by the Committee in the light of the outcome of UNCTAD VIII and its own deliberations.

D. Sustainable development and environment

14. In accordance with Board decision 384(XXXVII), the Committee decided that the concept of sustainable development should be systematically integrated into its ongoing work. The Committee shall, as an initial step, examine the links between domestic and international market conditions and the intensity of resource utilization, especially environmental effects. The competitiveness and demand for environmentally-friendly products vis-à-vis synthetics and substitutes shall be examined, taking into account the work previously done in UNCTAD and other relevant organizations; and the inclusion of ecological aspects in commodity fora, as well as ecological constraints to commodity trade, shall also be kept under review.

E. Expansion of commodity trade

15. Taking into account the changes in Central and Eastern Europe and their implications for commodity trade as well as the continuing growth in South-South commodity trade, the Committee decided to pay adequate attention to those aspects in its future work and especially to the opportunities for an expansion of trade for developing countries inter alia through the use of new forms of co-operation.

16. The Committee shall assess market access for the commodity sector in the light of the results of the Uruguay Round.

F. Consultation and co-operation with international organizations

17. In performing its co-ordinating role in the area of commodities, the Committee shall continue to review its co-operation with other international organizations. The Committee shall continue to follow developments in the Common Fund for Commodities in relation to its work programme.